

REPORT OF EXAMINATION
OF
OLD REPUBLIC HOME
PROTECTION COMPANY, INC.
AS OF
DECEMBER 31, 2008

Filed October 9, 2009

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San Francisco, California
September 8, 2009

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

OLD REPUBLIC HOME PROTECTION COMPANY, INC.

(also referred to as the Company) at its home office located at Two Annabel Lane, #112, San Ramon, California 94583.

SCOPE OF EXAMINATION

The previous examination was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008.

This examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

In the first quarter of 2009, the Company invested \$2.5 million in a senior debenture issued by an affiliate, Old Republic Title Insurance Group, Inc. (ORTIG). The debenture is guaranteed by the Company's ultimate parent, Old Republic International Corporation (ORI). The terms of the debenture are as follows:

Interest Rate	4.5% per annum above the monthly London Interbank Offered Rate (LIBOR) to be paid on the last business day of the quarter.
Due Date of Principal	December 31, 2038
Acceleration Provision	In the event of a default in the payment of principal, the total principal amount and any accrued interest becomes immediately due and payable.

ORI has issued a guaranty to the Company that states that if ORTIG has an unpaid balance for more than three days, ORI will pay the amount overdue. If a payment is made by ORI, and the payment does not terminate the obligation of the debenture, ORI is still obligated to make payments under the terms of the agreement. ORI has submitted the debenture transaction to the Securities Valuation Office (SVO) to obtain a valuation.

COMPANY HISTORY

During the examination period, the Company paid dividends to its parent company, Old Republic General Insurance Group, Inc. as follows:

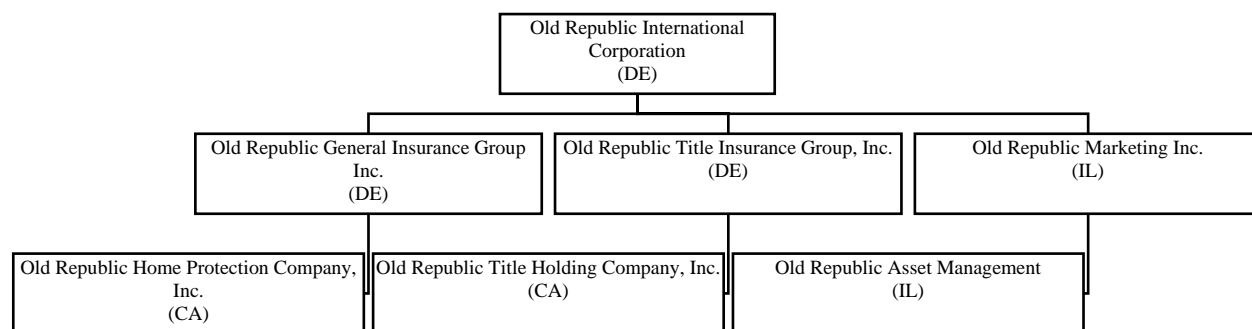
Year Dividends Paid	Amount Paid
2005	\$ 6 million
2006	6 million
2007	6 million
2008	6 million
Total	\$24 million

There were no financial objections by the California Department of Insurance for these dividend distributions.

MANAGEMENT AND CONTROL

The Company is wholly-owned by Old Republic General Insurance Group, Inc. (ORGIG) and is part of a larger group of companies ultimately controlled by Old Republic International Corporation (ORI).

The following is an abbreviated version of the organizational chart showing only the ultimate parent company, the parent company, and those affiliates with which the Company has management arrangements:



Members of the board of directors and principal officers serving at December 31, 2008 were as follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gwen M. Gallagher Alamo, California	President Old Republic Home Protection Company
James A. Kellogg Hartland, Wisconsin	President and Chief Operating Officer Old Republic International Corporation
Spencer LeRoy III LaGrange, Illinois	Senior Vice President, Secretary and General Counsel Old Republic International Corporation
R. Scott Rager Oakbrook, Illinois	Senior Vice President Old Republic General Insurance Group, Inc.
Aldo C. Zucaro Barrington, Illinois	Chairman and Chief Executive Officer Old Republic International Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Gwen M. Gallagher	President and Secretary
Lorna H. Mello	Vice President
James S. Beaty	Treasurer

Investment Counsel Services Agreement

The Company has an investment counsel services agreement with an affiliate, Old Republic Asset Management (ORAM). Under the terms of the agreement, ORAM advises the Company regarding its investment policy, assists in the purchase and sale of securities, and monitors the value of invested assets. ORAM's fee is based on the market value of the managed portfolio. This agreement was submitted to the California Department of Insurance (CDI) for review in compliance with the California Insurance Code (CIC) Section 1215.5 (b)(4) and was approved

on October 18, 2002. For 2005, 2006, 2007 and 2008 the amounts paid by the Company for these investment services were: \$53,988, \$41,962, \$41,796 and \$40,091, respectively.

Tax Sharing Agreement

Under a tax sharing agreement, the Company files a consolidated federal tax return with ORI. The agreement was submitted to CDI for approval in compliance with CIC Section 1215.5 (b)(4) and was approved on September 2, 2003.

General Corporate and Internal Audit Services

The Company receives general corporate services and internal audit services from two affiliates, Old Republic Title Company (ORTC) and Old Republic General Services, Inc. (ORGS) with no formal agreements in place which is in violation of CIC 1215.5(b)(4). In 2008, the Company paid ORTC \$28,715 and paid ORGS \$62,948 for these services. It is recommended that the Company draft and submit agreements with these affiliates to the CDI for approval to comply with CIC 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and is authorized in forty-five states (except the states of: Alaska, Massachusetts, Montana, New Hampshire, and North Dakota) and the District of Columbia. Direct contract fees written in 2008 were \$108,810,938. Of this amount, 26.2% (\$28,352,100) of the business was written in California, 17.8% (\$19,346,964) in Texas and 10.1% (\$10,992,936) in Arizona.

Business is written through a sales force of 89 sales representatives who market the contracts to real estate professionals.

REINSURANCE

On June 1, 2004, the Company entered into a reinsurance agreement with an affiliate, Old Republic Insurance Company (ORINSCO). Under the agreement, the Company assumed 100% of the business written by ORINSCO from its home protection branch in Virginia. Assumed premiums totaled \$490,860 for 2005, \$1,201,485 for 2006 and (\$1,438) for 2007. The agreement was terminated effective January 1, 2008.

ACCOUNTS AND RECORDS

The Company has an agreement with AMCOM (non-affiliated company) to provide software maintenance, engineering support, development and consulting services related to the information systems of the Company. This agreement was executed on December 1, 2003 and an amendment was made on January 15, 2008.

During the examination, it was noted that the Company chose not to recognize installment receivables until the actual receipt of funds. As a result, Plan Fees Receivable and Unearned Home Protection Contract Fees were understated at December 31, 2008. The Company correctly accounted for all uncollected premiums, including uncollected installment premiums, and unearned fees starting the first quarter of 2009.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Contract Holders from December 31, 2004 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$78,092,641	\$78,092,641	
Stocks	198,900	198,900	
Cash and short-term investments	5,271,457	5,271,457	(1)
Home protection contract fees receivable	2,897,677	2,897,677	
Receivable from parent, subsidiaries and affiliates	500,000	500,000	
Federal income tax recoverable	5,351,447	5,351,447	
Interest, dividends and real estate income due and accrued	<u>1,101,746</u>	<u>1,101,746</u>	
Total assets	<u>\$93,413,868</u>	<u>\$93,413,868</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in process of adjustment		\$ 3,634,230	
Claims service expense		603,714	
Other expenses		2,049,048	
Taxes, licenses and fees		299,397	
Unearned home protection contract fees		<u>45,051,402</u>	
Total liabilities		<u>51,637,791</u>	
Common capital stock	\$ 160,518		
Gross paid-in and contributed surplus	5,459,900		
Unassigned funds (surplus)	36,155,347		
Unrealized gain on equity securities	<u>312</u>		
Surplus as regards contract holders		<u>41,776,077</u>	
Total liabilities, surplus and other funds		<u>\$93,413,868</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income

Home protection contract fees earned		\$108,742,681
Deductions:		
Claims incurred	\$56,076,077	
Claims service expenses incurred	10,340,600	
Other underwriting expenses incurred	<u>30,465,115</u>	
Total underwriting deductions		<u>96,881,792</u>
Net underwriting gain		11,860,889

Investment Income

Net investment income earned	\$ 3,630,434	
Net realized losses	<u>(1,136,202)</u>	
Net investment gain		<u>2,494,232</u>

Other Income

Installment payment handling fee	<u>\$ 181,408</u>	
Total other income		<u>181,408</u>
Net income before federal income taxes		14,536,529
Federal income taxes incurred		<u>5,003,197</u>
Net income		<u>\$ 9,533,332</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2007		\$38,064,309
Net income	\$ 9,533,332	
Change in nonadmitted assets	208	
Dividends to stockholders (cash)	(6,000,000)	
Changes in net deferred taxes	177,916	
Unrealized gain on equity securities	<u>312</u>	
Change in surplus as regards contract holders for the year		<u>3,711,768</u>
Surplus as regards contract holders, December 31, 2008		<u>\$ 41,776,077</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2004 through December 31, 2008

Surplus as regards contract holders:			
December 31, 2004, per Examination			\$ 28,461,930
	<u>Gain in</u> <u>Surplus</u>	<u>Loss in</u> <u>Surplus</u>	
Net income	\$37,471,001	\$	
Unrealized investment gain	312		
Changes in deferred taxes	261,912		
Change in nonadmitted assets		419,078	
Dividends to stockholders (cash)	<u> </u>	<u>24,000,000</u>	
Total gains and losses in surplus	<u>\$37,733,225</u>	<u>\$24,419,078</u>	
Increase in surplus as regards contract holders			<u>13,314,147</u>
Surplus as regards contract holders,			
December 31, 2008, per Examination			<u>\$41,776,077</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds, Stocks and Short-Term Investments

The Company has a money market account at Fidelity Investments Institutional Operations Company, Incorporated which is not a qualified custodian under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company move its money market account to a qualified custodian to comply with CIC Section 1104.9.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – General Corporate and Internal Audit Services (Page 5): It is recommended that the Company draft and submit agreements with its affiliates, Old Republic Title Company and Old Republic General Services, Inc., to the California Department of Insurance (CDI) for approval to comply with California Insurance Code (CIC) Section 1215.5(b)(4).

Accounts and Records (Page 6): During the examination, it was noted that the Company chose not to recognize installment receivables until the actual receipt of funds. As a result, Plan Fees Receivable and Unearned Home Protection Contract Fees were understated at December 31, 2008. The Company correctly accounted for all uncollected premiums, including uncollected installment premiums, and unearned fees starting the first quarter of 2009.

Comments on Financial Statements Items – Bonds, Stocks and Short-Term Investments (Page 10): It is recommended that the Company move its money market account to a qualified custodian to comply with CIC Section 1104.9.

Previous Report of Examination

There were no comments in the prior examination.

ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

/s/

Jennifer Whitehurst, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California